

**Supporting Statement for the
Reports of Foreign Banking Organizations
(FR Y-7, FR Y-7N, FR Y-7NS, and FR Y-7Q; OMB No. 7100-0125)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend, with revision, the following mandatory reports:

- the Annual Report of Foreign Banking Organizations (FR Y-7; OMB No. 7100-0125) and
- the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations¹ (FR Y-7N; OMB No. 7100-0125).

This family of reports also contains the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations¹ (FR Y-7NS) and the Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q), which are being extended, without revision.

All foreign banking organizations (FBOs) that engage in banking in the United States, either directly or indirectly, file the annual FR Y-7 to update their financial and organizational information. The FR Y-7N and FR Y-7NS collect financial information for U.S. nonbank subsidiaries held by FBOs other than through a U.S. bank holding company, U.S. financial holding company (FHC) or U.S. bank. The FR Y-7Q collects consolidated regulatory capital information from all FBOs either quarterly or annually. FBOs that have effectively elected to become FHCs file the FR Y-7Q on a quarterly basis. All other FBOs (those that have not elected to become FHCs) file the FR Y-7Q annually.

The Federal Reserve proposes to revise the FR Y-7 modifying the cover page, changing the order of the report and instructions, and clarifying several areas in the instructions. The Federal Reserve proposes to revise the FR Y-7 to be consistent with the reporting requirements detailed in the *Annual Report of Bank Holding Companies* (FR Y-6; OMB No. 7100-0124), *Report of Changes in Organizational Structure* (FR Y-10; OMB No. 7100-0297), and the *Report of Changes in FBO Organizational Structure* (FR Y-10F; OMB No. 7100-0297). The proposed revisions to the FR Y-7 would be effective beginning with fiscal year-ends of December 31, 2005. The Federal Reserve also proposes minor revisions to the instructions for two balance sheet items on the FR Y-7N to keep it parallel with changes proposed for other nonbank subsidiary reports. The revisions to the FR Y-7N would be effective as of the June 30, 2005, report date. The total current annual reporting burden is estimated to be 5,547 hours and is estimated to decrease by 163 hours with these proposed revisions.

¹ Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

Background and Justification

The Federal Reserve implemented the FR Y-7 in January 1972 and required only foreign banks that controlled U.S. subsidiary banks to file. With the enactment of the International Banking Act of 1978 (IBA), the Congress established a framework for federal regulation of foreign banks operating in U.S. financial markets. Section 7 of the IBA authorizes the Federal Reserve to examine U.S. branches, agencies, and subsidiary commercial lending companies of foreign banks and to assess the condition of the multi-state banking operations of foreign banks. Section 8(a) of the IBA states that foreign banks that engage in banking in the United States through a U.S. branch, agency or subsidiary commercial lending company and companies that control such foreign banks are subject to the provisions of the BHC Act, as amended.

Given these statutory responsibilities, the Federal Reserve issued two policy statements (one on February 23, 1979, and the other on July 20, 1979) on the supervision of FBOs that control a U.S. subsidiary bank. They stated that the Federal Reserve needed full financial information on foreign parent organizations to assess the foreign parent's ability to continue to serve as a source of strength for their U.S. operations. In 1980, as part of its implementation of those policy statements, the Federal Reserve issued a revised FR Y-7 form setting forth annual reporting requirements for FBOs engaged in banking in the United States.

In 2002, the Federal Reserve revised the FR Y-7 and implemented the FR Y-7Q, FR Y-7N, and FR Y-7NS. Revisions to the FR Y-7 included: 1) moving the risk-based capital reporting requirement to the FR Y-7Q; 2) moving the Nonbank Financial Information Summary (NFIS) report, which included data from U.S. nonbank subsidiaries held directly by a foreign parent (i.e., not through a U.S. bank holding company (BHC), or U.S. FHC or U.S. banks), to the FR Y-7N or FR Y-7NS; 3) updating the eligibility requirements for qualifying foreign banking organizations (QFBOs) in accordance with revisions to Regulation K; 4) deleting of items from the report pertaining to Financial Statements of Unconsolidated Majority-Owned Related Subsidiaries and Financial Data on Unconsolidated Minority-Owned Related Companies, respectively; 5) other technical revisions to the FR Y-7 form and instructions to ensure consistency with other reporting forms; and reordering the sequence of the form to facilitate reporting.

The Federal Reserve System uses information collected on this family of reports to assess a FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations. This information is not available from other sources.

Description of Information Collection

FR Y-7

The FR Y-7 is an annual report required by foreign companies that are directly or indirectly engaged in the business of banking in the United States as of the end of the reporter's fiscal year.² The FR Y-7 consists of financial and managerial information (Report Items 1–4).

² Under the International Banking Act of 1978, banks organized under the laws of Puerto Rico and other American possessions are generally not required to file the FR Y-7. Such banks are insured by the FDIC and examined by U.S. supervisory agencies.

Report Items 1–3 require FBOs to submit financial and managerial information that will enable the Federal Reserve System to assess their ability to be a continuing source of strength and support to their U.S. banking operations. Report Item 4 requests information for determining the eligibility as a QFBO.

Proposed Revisions

The Federal Reserve proposes the following revisions to facilitate the use of the data collected and reduce burden on reporters.

Order of the report: The reporting form and instructions would be reorganized. The new format shown below would reduce the amount of pages filed.

- Cover Page
- Checklist (CKLST) COV - 2
- Pages COV-3 & 4
- General Instructions
- Specific Instructions for Report Items 1 through 4
- Glossary

Cover Page: The Federal Reserve proposes to modify the layout of the FR Y-7 cover page to conform to the standard cover page used for other regulatory reports:

- **Modify** – Certification to read – “I, (Name and Title of the Foreign Banking Organization Authorized Official) certify that this *Annual Report of Foreign Banking Organizations* has been prepared in conformance with the report instructions.” Currently an authorized official signs off that the report has been examined and is true and complete to the best of their knowledge and belief. The Federal Reserve proposes making the language stronger.
- **Add** – Section “For Federal Reserve Bank Use Only.” The information in this section would include: RSSD Number and C.I. (*Confidential Indicator*).
- **Delete** – “Does the foreign banking organization request confidential treatment for any portion of the report?” A question regarding confidential treatment is currently on the Checklist.
- **Delete** – “Does this Annual Report represent the official filing of other members of a tiered foreign banking organization?”
- **Delete** – “See Glossary for definitions of terms used herein.” The Federal Reserve believes this statement is unnecessary.

General Instructions

- **Revise** – “Who Must Report”: Replace the second paragraph in this section with the following – “In the case of multi-tiered FBOs that are direct or indirect subsidiaries of another FBO the reporting requirements of the FR Y-7 can be satisfied by submitting the required information as part of the FR Y-7 submission of the top-tier FBO. In such a unified submission, subsidiary FBOs need not provide responses to Report Items 1 and 2 if those responses would duplicate information provided by the top-tier FBO. The top-tier FBO and each subsidiary FBO must provide a response to Report Item 3. In addition, subsidiary FBOs included within the tiered report need not provide a separate response to Report Item 4 unless the subsidiary FBO claims the

limited exemption pursuant to section 211.23(c) or Regulation K (12 CFR 211.23(c)).”

- Revise – “Confidentiality” – Replace the fifth paragraph in this section with the following – “Reporters requesting confidential treatment of information should be advised that Federal Reserve policy, particularly in those instances in which a FBO owns a U.S. bank subsidiary, strongly favors disclosure of the names and the number and percentage of voting securities provided in response to Report Item 3 that pertain to shareholders who control 10 percent or more of any class of voting shares of a FBO, unless there is shown to be a well-defined present threat to the liberty or personal security of individuals. This policy, however, shall not preclude a reporter from raising any ground for confidential treatment of such information that may be available under the Freedom of Information Act. The Federal Reserve will notify a reporter of its decision on any request for confidential treatment of shareholder information before releasing any such information.”
- Revise – “Signatures” – The *Annual Report of Foreign Banking Organizations* shall be signed by a duly authorized official of the Reporter
- Revise – “Regulatory Reports Monitoring Program” replace with “Federal Reserve Banks will monitor the filing of all regulatory reports to ensure that they are filed in a timely manner and are accurate and not misleading. Reporting deadlines are detailed in the When to Submit the Report section of these general instructions. Additional information on the monitoring procedures is available from the Federal Reserve Banks.”

Specific Instructions:

Report Item 1.A. Financial Statements

- Clarify – that the reporting of finalized data must be submitted within thirty calendar days from the report due date.

Report Item 2.A. Organization Chart

- Clarify – the sections under “*Entities reportable on the FR Y-10F and thus reportable on the FR Y-7 Organization Chart*,” “*Additional entities reportable on the FR Y-7*,” and “*Interest not reportable on the FR Y-7 Organization Chart*.” The Federal Reserve proposes to clarify these sections to parallel recent changes to the FR Y-6 and FR Y-10F instructions.

Report Item 2.B. All companies held pursuant to Section 2(h)(2) or Section 4(c)(9) of the BHC Act and Section 211.23(f)(5) of Regulation K.

- Revise title with “Report Item 2(b). Foreign companies held pursuant to section 2(h)(2) of the BHC Act and section 211.23(f)(5) of Regulation K, or section 4(c)(9) of the BHC Act and section 211.23(f)(5) of Regulation K”
 1. For each foreign company (whether or not a subsidiary):
 - a. provide its full legal name and location (city/country);
 - b. indicate the percent of any class of voting shares of the company that is held directly or indirectly by the FBO; and
 - c. indicate the percent of the company’s worldwide consolidated assets that are located in and gross revenues that are derived from

the United States.

2. For each foreign company that is a subsidiary, indicate its U.S. activities (conducted through a U.S. office or a U.S. company, whether or not a subsidiary of the foreign company), and confirm that these activities are the same as or are related to those conducted abroad as measured by North American Industry Classification System (NAICS) codes.

Note: Reporters are reminded that, pursuant to section 211.23(f)(5)(ii) of Regulation K (12 CFR 211.23(f)(5)(ii)), foreign companies may not directly underwrite, sell, or distribute, nor own or control more than 10 percent of the voting shares of a company that underwrites, sells, or distributes securities in the United States, except to the extent permitted bank holding companies.

Under a 1971 Board interpretation (12 CFR 225.124(d)), a foreign bank holding company may underwrite or deal in shares of stock (including shares of United States issuers) to be distributed outside the United States, provided that shares so acquired are disposed of within a reasonable time. This applies only to activity that takes place outside of the United States and that does not involve a U.S. office. See F.R.R.S. 3-693 (addressing restrictions on underwriting by foreign banks of securities to be distributed in the United States). Shares of companies held pursuant to the interpretation on the reporting date need not be reported in response to report item 2(b), provided that the holding of the shares is in all respects consistent with the interpretation.

Report Item 3. Shares and Shareholders

- Clarify – the type of shares and securities as “voting” to be consistent with the reporting requirement detailed in the FR Y-6.

Report Item 4. Eligibility as a Qualified Foreign Banking Organization

- Clarify – the “Notes to Report Item 4”, bullet “1” to further explain the relationships among the subitems.

Glossary

- Delete – duplicative entries that can be found in the FR Y-10F Glossary.
- Delete – obsolete entries for terms not found within the FR Y-7 instructions.

FR Y-7N

The FR Y-7N consists of a balance sheet and income statement, information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet items, and loans, and a memoranda section. All FBOs file the FR Y-7N quarterly for their significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least \$1 billion or off-balance-sheet activities (including commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of at least \$5 billion, as of the end of a quarter. FBOs commence quarterly reporting for these subsidiaries at the end of the quarter in which the subsidiaries meet the significance threshold. Once a subsidiary meets the quarterly reporting threshold during the calendar year, the FBO continues to file the FR Y-7N quarterly for the calendar year even if the subsidiary diminishes in size and no longer meets the threshold at some future quarter during the calendar year. For nonbank subsidiaries not fulfilling the quarterly criteria and with assets between \$250 million and \$1 billion, FBOs file the FR Y-7N annually.³ These annual reports are filed for the twelve months ending December 31st of each calendar year. There are no changes proposed to the reporting thresholds of this report. The current panel meets the supervisory needs of the Federal Reserve.

Proposed Revisions

The Federal Reserve proposes minor revisions to the instructions for two balance sheet items on the FR Y-7N to parallel changes proposed for other nonbank subsidiary reports. The revisions to the FR Y-7N would be effective as of the March 31, 2005, report date.

Balance Sheet Instructions

- Revise - Line item 7, “All other assets,” to exclude investments in unconsolidated subsidiaries and associated companies and clarify that only investment in nonrelated companies should be included in this item.
- Revise - Line item 9, “Balances due from related organizations,” to include the amount of the subsidiary’s investments in unconsolidated subsidiaries and associated companies and the balances due from the subsidiaries of the reporting nonbank subsidiary.

FR Y-7NS

All FBOs file the FR Y-7NS, an abbreviated form that collects net income, total assets, equity capital, and total off-balance-sheet items. All FBOs file annually for any nonbank subsidiaries that do not meet the quarterly reporting criteria for the FR Y-7N and have assets between \$50 million and \$250 million. The Federal Reserve believes it is important to capture basic information on these subsidiaries, since the four items to be collected serve as good indicators of higher business volume, risk, and complexity in small subsidiaries. The Federal Reserve needs to continue to review minimum financial data from these entities in order to monitor potential developments that may pose risks to the U.S. operations of the FBO. FBOs are exempt from reporting data for any nonbank subsidiary that is functionally regulated or has assets below \$50 million and does not meet the quarterly reporting criteria. There are no

³ The Federal Reserve may require certain nonbank subsidiaries to file quarterly if they have significant risk exposures.

changes proposed to the reporting thresholds of this report. The current panel meets the supervisory needs of the Federal Reserve.

FR Y-7Q

The FR Y-7Q collects consolidated capital and asset information from all FBOs. FBOs that have not elected to become FHCs report capital information for the top-tier FBO on the FR Y-7Q report annually. The report collects tier 1 capital, total risk-based capital, risk-weighted assets, and total assets. FBOs that have been granted FHC status file the FR Y-7Q quarterly. In addition, FBOs that file quarterly because of the FHC designation also have to provide separate capital schedules for each lower-tier FBO operating a branch, agency, Edge or agreement corporation, or commercial lending company in the United States.

Time Schedule for Information Collection

Currently all FBOs file the FR Y-7 annually as of the end of the FBO's fiscal year; the data are due not later than four months after the report date. FBOs file the FR Y-7N quarterly for certain significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least \$1 billion or off-balance-sheet activities of at least \$5 billion, as of the end of a quarter. FBOs file the FR Y-7N or FR Y-7NS annually for nonbank subsidiaries not fulfilling the quarterly criteria and with assets greater than or equal to 50 million. The reporting on the FR Y-7N and FR Y-7NS are based on the U.S. calendar year and are due sixty days after the report date. All FBOs are required to file the FR Y-7Q within ninety days after the report date. There are no proposed changes to these filing schedules.

Data from these reports are not published, but nonconfidential data would be available to the public upon request. Reporting is mandatory.

Legal Status

The Board's Legal Division has determined that the following statutes authorize the Federal Reserve to require the FR Y-7, FR Y-7N, FR Y-7NS, and FR Y-7Q: 12 U.S.C. §§ 601-604a, 611-631, 1844(c), 3106, and 3108(a). The Board's Legal Division also determined that the data reported on the FR Y-7, FR Y-7N, and FR Y-7NS reports are not considered confidential. However, the Legal Division has determined that FR Y-7Q data will not be publicly released until 120 days after the as-of date. Also, individual respondents may request confidential treatment for any of these reports pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) and (b)(6)]. Section (b)(4) provides exemption for "trade secrets and commercial or financial information obtained from a person as privileged or confidential." Section (b)(6) provides exemption for "personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy."

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Respondent Burden

The following table shows the estimated annual reporting burden for the current and proposed reporting forms. The Federal Reserve estimates that the proposed changes to the FR Y-7 would decrease the total annual reporting burden from 5,547 to 5,384 hours. This net reduction in burden hours reflects a decrease in the number of respondents and an increase in the estimated average hours per response, since top-tier FBOs would file on behalf of all FBOs within their organization. The reporting burden for the FR Y-7N, FR Y-7NS, and FR Y-7Q reports would remain unchanged. The estimated annual burden for each of these reports, current and proposed, is less than 1 percent of the total Federal Reserve System burden.

	<i>Number of Respondents</i>	<i>Annual Frequency</i>	<i>Estimated Average Hours Per Response</i>	<i>Estimated Annual Burden Hours</i>
Current FR Y-7	327	1	3.25	1,063
Proposed FR Y-7	257	1	3.50	900
Current FR Y-7N (quarterly)	129	4	6	3,096
Current FR Y-7N (annual)	137	1	6	822
Current FR Y-7NS	170	1	1	170
<i>Total</i>				4,088
Current FR Y-7Q (quarterly)	52	4	1.25	260
Current FR Y-7Q (annual)	136	1	1	136
<i>Total</i>				396
<i>Current Total</i>				5,547
<i>Proposed Total</i>				5,384
<i>Change</i>				(163)

Based on an hourly cost of \$20, the estimated annual cost to the public would decrease from \$110,940 to \$107,680.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-7 is estimated to be \$829,776 annually.